Consolidated Statements of Income

[thousands except per share amounts]

	1986	1985	1984
Net Sales	$3,142,696	$2,387,110	$1,343,134
Costs of Goods Sold, Occupancy and Buying Costs	2,180,869	1,668,267	938,813
Gross Income	961,827	718,843	404,321
General, Administrative and Store Operating Expenses	523,598	442,631	231,219
Operating Income	438,229	276,212	173,102
Interest Expense	(45,900)	(41,230)	(16,662)
Other Income, net	2,451	4,335	1,055
Income Before Income Taxes	394,780	239,317	157,495
Provision for Income Taxes	167,000	94,000	65,000
Net Income	$ 227,780	$ 145,317	$ 92,495
Net Income Per Share	$1.21	$.80	$.51

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

[thousands]

Assets	January 31, 1987	February 1, 1986
Current Assets		
Cash and Equivalents	$ 3,256	$ 12,948
Accounts Receivable	72,878	62,077
Inventories	361,489	320,305
Prepayments and Other	31,608	20,994
Total Current Assets	469,231	416,324
Property and Equipment	734,727	648,314
Investment in Finance Subsidiaries	105,503	74,795
Other Assets	67,628	72,077
Total Assets	$1,377,089	$1,211,510
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable	$ 169,112	$ 184,368
Accrued Expenses	131,829	103,381
Income Taxes	33,963	65,669
Total Current Liabilities	334,904	353,418
Long-Term Debt	70,420	388,744
Deferred Income Taxes	169,414	44,506
Other Long-Term Liabilities	20,809	20,767
Shareholders' Equity		
Common Stock	94,398	59,917
Paid-In Capital	199,424	24,695
Retained Earnings	487,720	319,463
Total Shareholders' Equity	781,542	404,075
Total Liabilities and Shareholders' Equity	$1,377,089	$1,211,510

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

[thousands]

	Common Stock			
	Shares Outstanding	Par Value	Paid-in Capital	Retained Earnings
Balance, January 28, 1984	**59,180**	**$29,590**	**$ 18,088**	**$144,898**
Net income	—	—	—	92,495
Cash dividends	—	—	—	(14,263)
Exercise of stock options and other	434	217	4,378	—
Balance, February 2, 1985	**59,614**	**29,807**	**22,466**	**223,130**
Net income	—	—	—	145,317
Cash dividends	—	—	—	(19,118)
Two-for-one stock split	59,732	29,866	—	(29,866)
Exercise of stock options and other	488	244	2,229	—
Balance, February 1, 1986	**119,834**	**59,917**	**24,695**	**319,463**
Net income	—	—	—	227,780
Cash dividends	—	—	—	(29,507)
Three-for-two stock split	60,032	30,016	—	(30,016)
Conversion of debentures	8,312	4,156	170,844	—
Exercise of stock options and other	618	309	3,885	—
Balance, January 31, 1987	**188,796**	**$94,398**	**$199,424**	**$487,720**

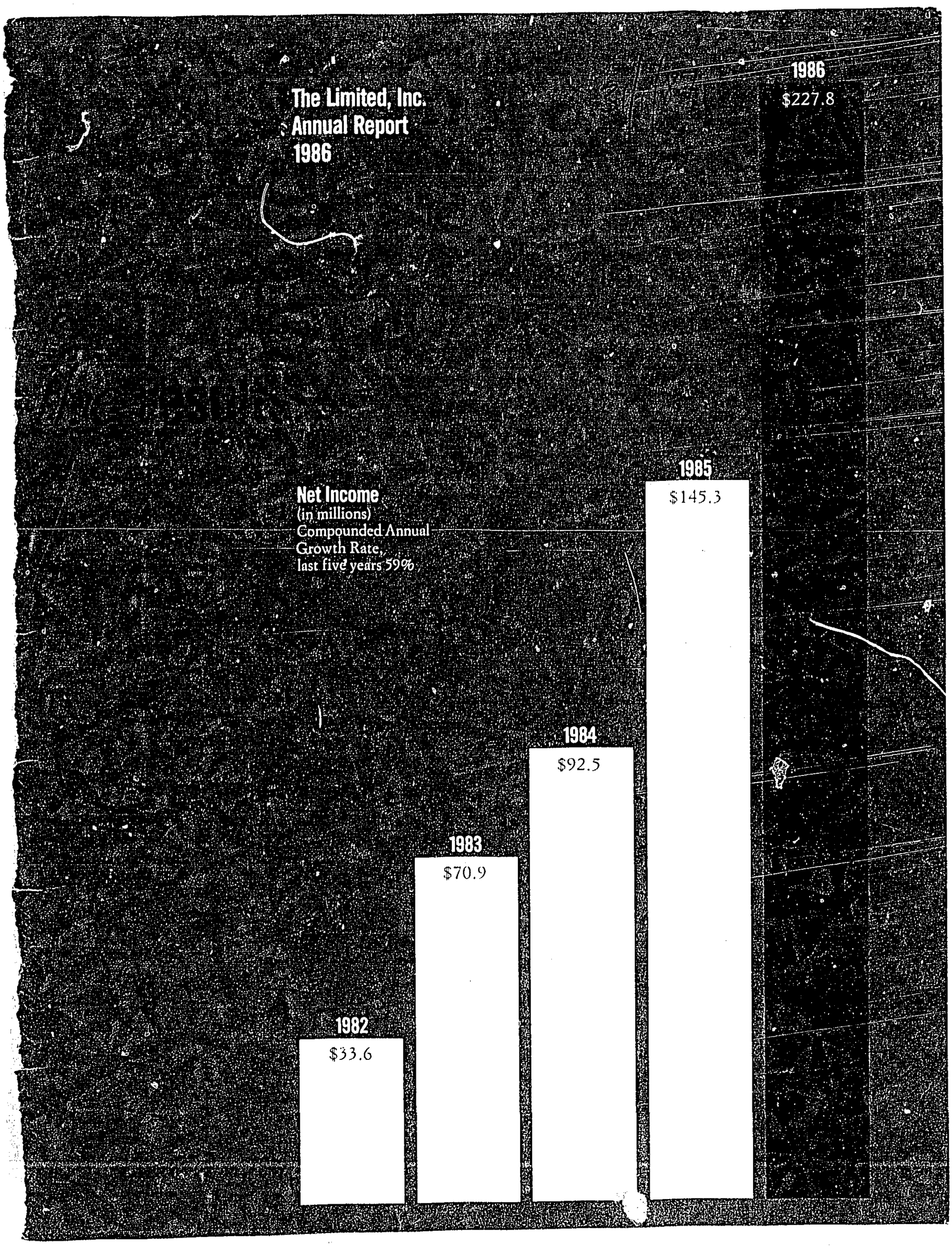
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

[thousands]	1986	1985	1984
Cash was provided from:			
Operations			
Net income	$227,780	$145,317	$ 92,495
Add expenses not requiring working capital			
Depreciation and amortization	97,393	80,128	34,526
Deferred income taxes and other	36,920	(3,030)	7,587
Working capital from operations	362,093	222,415	134,608
Cash flow additions (requirements) resulting from			
Inventories	(41,184)	(51,342)	(67,157)
Payables	(15,256)	62,567	36,240
Income taxes	47,346	11,082	16,326
Other current assets and liabilities	7,033	4,528	288
Cash provided from operations	360,032	249,250	120,305
Other sources of cash			
Increases in long-term debt	—	521,590	38,290
Conversion of debt to stock—$175,000 in 1986	—	—	—
Other, including disposal of assets	22,859	9,317	1,706
Total cash provided	382,891	780,157	160,301
Cash was used for:			
Investment in property and equipment	196,487	180,269	117,684
Reduction of long-term debt	143,324	196,398	—
Cash dividends	29,507	19,118	14,263
Investment in finance subsidiaries	23,265	47,456	8,000
Net cash to acquire subsidiaries and retire debt	—	331,462	14,142
Total cash used	392,583	774,703	154,089
Increase (decrease) in Cash and Equivalents	(9,692)	5,454	6,212
Cash and Equivalents, beginning of year	12,948	7,494	1,282
Cash and Equivalents, end of year	$ 3,256	$ 12,948	$ 7,494

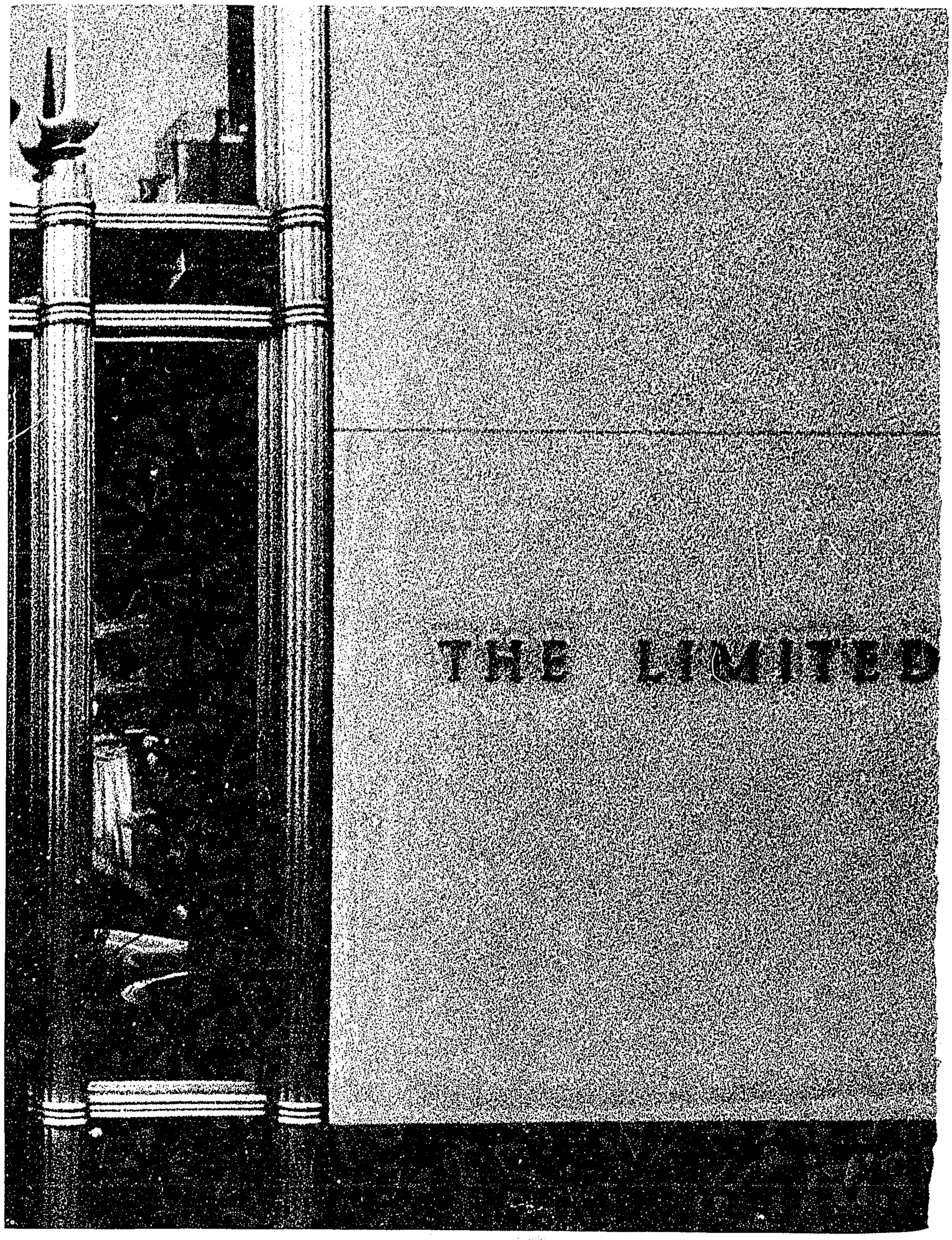
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

The Limited, Inc.
Annual Report
1986



most profitable year in the history of The Limited.

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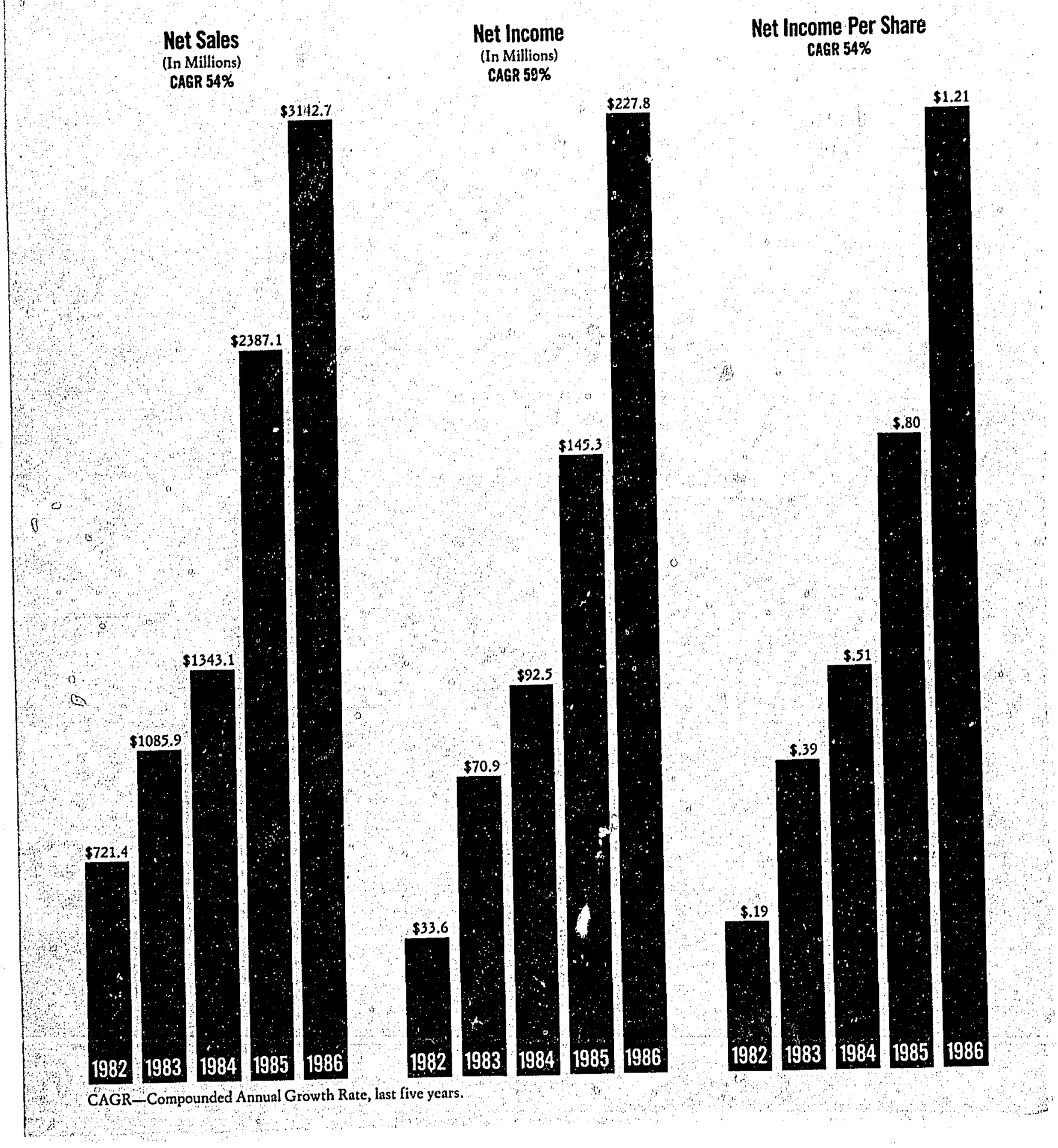
THE LIMITED

Financial Highlights

[thousands except per share amounts]

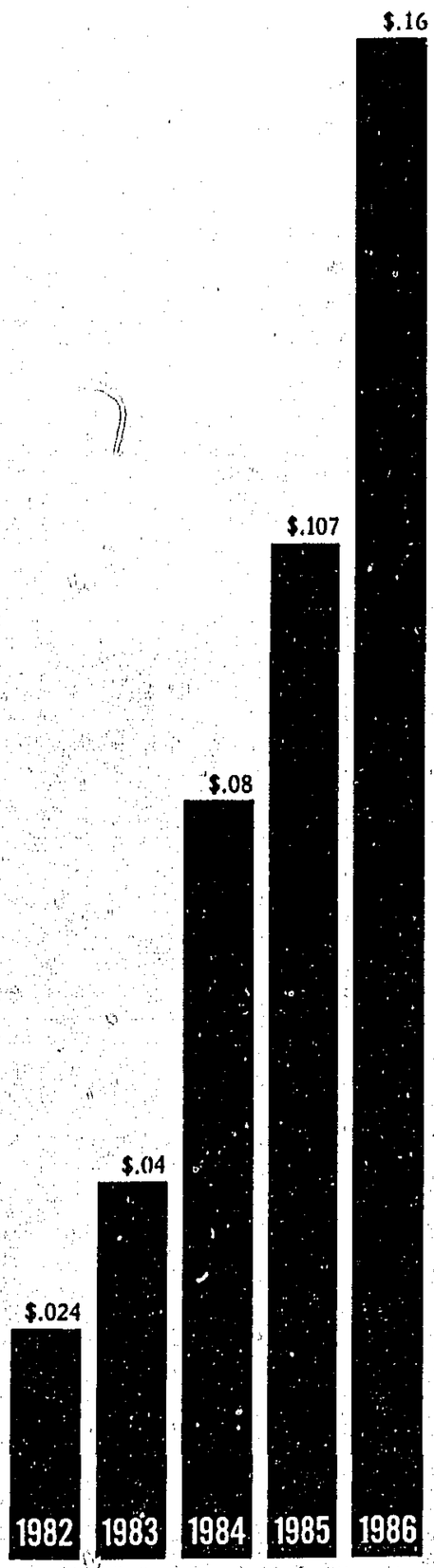
Fiscal Year	1986	1985	% Increase (Decrease)
Operating Results			
Net Sales	$3,142,696	$2,387,110	32%
Income before Income Taxes	$ 394,780	$ 239,317	65%
Net Income	$ 227,780	$ 145,317	57%
Net Income as a Percentage of Sales	7.2%	6.1%	
Net Income Per Share	$1.21	$.80	51%
Year End Position			
Working Capital	$ 134.327	$ 62,906	114%
Current Ratio	1.4	1.2	
Total Assets	$1,377,089	$1,211,510	14%
Long-Term Debt	$ 70,420	$ 388,744	(82%)
Shareholders' Equity	$ 781,542	$ 404,075	93%
Return on Average Shareholders' Equity	38%	43%	
Number of Stores Open at End of Year			
Limited Stores	652	597	
Limited Express	286	218	
Lerner	750	750	
Victoria's Secret	167	93	
Lane Bryant	579	401	
Sizes Unlimited	247	293	
Henri Bendel	1	1	
Total	2,682	2,353	

Financial Highlights



CAGR—Compounded Annual Growth Rate, last five years.

Dividends Per Share
CAGR 65%



Return on Average Shareholders' Equity
5 YEAR AVERAGE 40%



Shareholders' Equity
(In Millions)
CAGR 57%



To Our Shareholders



The extraordinary efforts of our associates produced the most profitable year in our 23-year history—with sales, earnings and earnings per share reaching record levels. Net sales increased 32% to $3.1 billion, while net income rose 57% to $227.8 million. Adjusting for the three-for-two stock split in June 1986, earnings per share were up 51% to $1.21 per share. These significant increases were due primarily to double-digit sales gains and tight control over expenses during a year marked by expansion.

Major Accomplishments

Nineteen eighty-six was a superior year for The Limited. Progress in virtually every aspect of the business generated these accomplishments:

- Record earnings;
- 431 new stores;
- A new location selected on Manhattan's Fifth Avenue for the Henri Bendel flagship store;
- A new Bendel's president, Mark Shulman;
- 9,600 new associates;
- Four new support divisions: Limited Store Planning, Limited Real Estate, Limited Distribution Services and Limited Credit Services;

Each of these support divisions is headed by a president, underscoring our belief in strategic planning, strong individual leadership, and well-executed support systems;

- Associates' participation in our payroll stock purchase plan exceeding 30% of the work force—we believe the highest of any public company;
- Plans and ground breaking for a $70 million, 1 million square-foot addition to the Columbus Distribution Complex, already the largest of its kind in the world;
- $175 million of subordinated debentures converted into common stock, increasing shareholders' equity to almost $800 million; and
- New industry profitability standards established by Limited Stores.

Acquisitions

In 1982, we purchased an underperforming Lane Bryant. By developing aggressive and exciting marketing concepts—and by installing new systems—the nation's leading retailer of women's large-size apparel has grown from 220 stores to 579, including 181 new stores this year. Lane Bryant recently introduced Lerner Woman and is now approaching Limited Stores' pretax operating margins.

Also in 1982, we purchased Victoria's Secret, which has grown from 4 stores to a national presence of 167 stores. We expect to have more than 250 Victoria's Secret stores by the end of 1987.

We acquired the underperforming Lerner Stores chain—the world's largest women's apparel retailer operating under one trade name—in 1985. Capitalizing on the lessons learned during Lane Bryant's transition, Lerner is progressing ahead of plan and now is approaching industry standards of profitability.

Our attempt to acquire Carter Hawley Hale this year, in partnership with The Edward J. DeBartolo Corporation, the nation's largest shopping center developer, provided us with an opportunity consistent with our Lane Bryant and Lerner acquisitions. We saw the chance to leverage, fix, create and build. We are opportunistic...and will continue to look for acquisitions that provide the circumstances to utilize our operating and merchandising skills and that add value, without hindering our existing businesses.

The Future

In 1986, The Limited again was recognized as a premier specialty retailer. In *Forbes' 1986 Annual Report on American Industry,* The Limited ranked first among the specialty apparel retailers surveyed for appreciation, return on equity, earnings per share and sales growth. In fact, over the last five years, on a compound annual growth basis, sales have grown 54%, net income has grown 59% and shareholders' equity has grown 57%. These are important quantitative measures. However, to our way of thinking, we are an unconventional company, never compromising quality for quantity in our pursuit of excellence.

I reaffirm my promise that the integrity of The Limited, our commitment to excellence, our respect for people and the confidence of our shareholders will not be compromised

While our store designs were being applauded for innovative concepts and use of materials, we were at the drawing board projecting designs for the '90s. The result is the Northpark triplex store in Dallas, a single retail environment housing Limited, Limited Express and Victoria's Secret. Since the day this "new" store opened, we have been at work on improvements. From our decision to discontinue the successful Hunter's Run came Forenza, Krizia, Outback Red, Express Internationale and Venezia.

What is our point of view? We don't think about our retailing efforts in the traditional way. Most of the measures that we—and others—put on our business are quantitative, but we believe that in retailing, quantity is derived from quality. It is the quality of our relationships, the quality of our store designs and products, the quality of our thought and execution and the quality of our critique—that produces quantity.

We believe that by thinking in a fresh, entrepreneurial manner and by focusing on quality, we expect to:

- Generate sales increases of $800 million to $1 billion in each of the next three years, without acquisitions;
- Open 500 new stores annually over the next three years, without acquisitions;
- Expand our credit operations to include a credit card for Limited Stores, Limited Express and Victoria's Secret;
- Develop a mail order catalogue for Limited Stores and Limited Express;
- Develop and start new businesses; and
- Strengthen relationships with customers, associates, suppliers and investors.

Your support and confidence have inspired the performances that have produced our growth and innovation. You have reminded me that we should be bold but consistent, that we should grow but not compromise our entrepreneurial spirit, that we should continue on the cutting edge of retailing but not forget our base. To you, I extend my sincerest gratitude, and I reaffirm my promise that the integrity of The Limited, our commitment to excellence, our respect for people and the confidence of our shareholders will not be compromised in our quest to become a major force in the world of retailing.

Leslie H. Wexner
Chairman
March 21, 1987



Compagnie Internationale

LIMITED EXPRESS

Limited Express offers the latest, most creative international assortment of sportswear and accessories designed to appeal to spirited women on the cutting edge of world fashion. Store designs and marketing are fresh and bold, offering customers an exciting shopping experience.

286 stores in most major markets
Average store size: 2,600 square feet.



Imagination and a determination to be the very best have brought America progressive fashion designs like Forenza, Outback Red and Moods by Krizia, the three fastest-growing sportswear brands in America.

652 stores in every major market
Average store size: 4,000 square feet

LIMITED



VICTORIA'S SECRET

The international lingerie collection of Victoria's Secret provides contemporary women with imaginative, high-fashion designer intimate apparel through retail and mail-order divisions.

167 stores in most major markets
Average store size: 1,700 square feet



Lerner

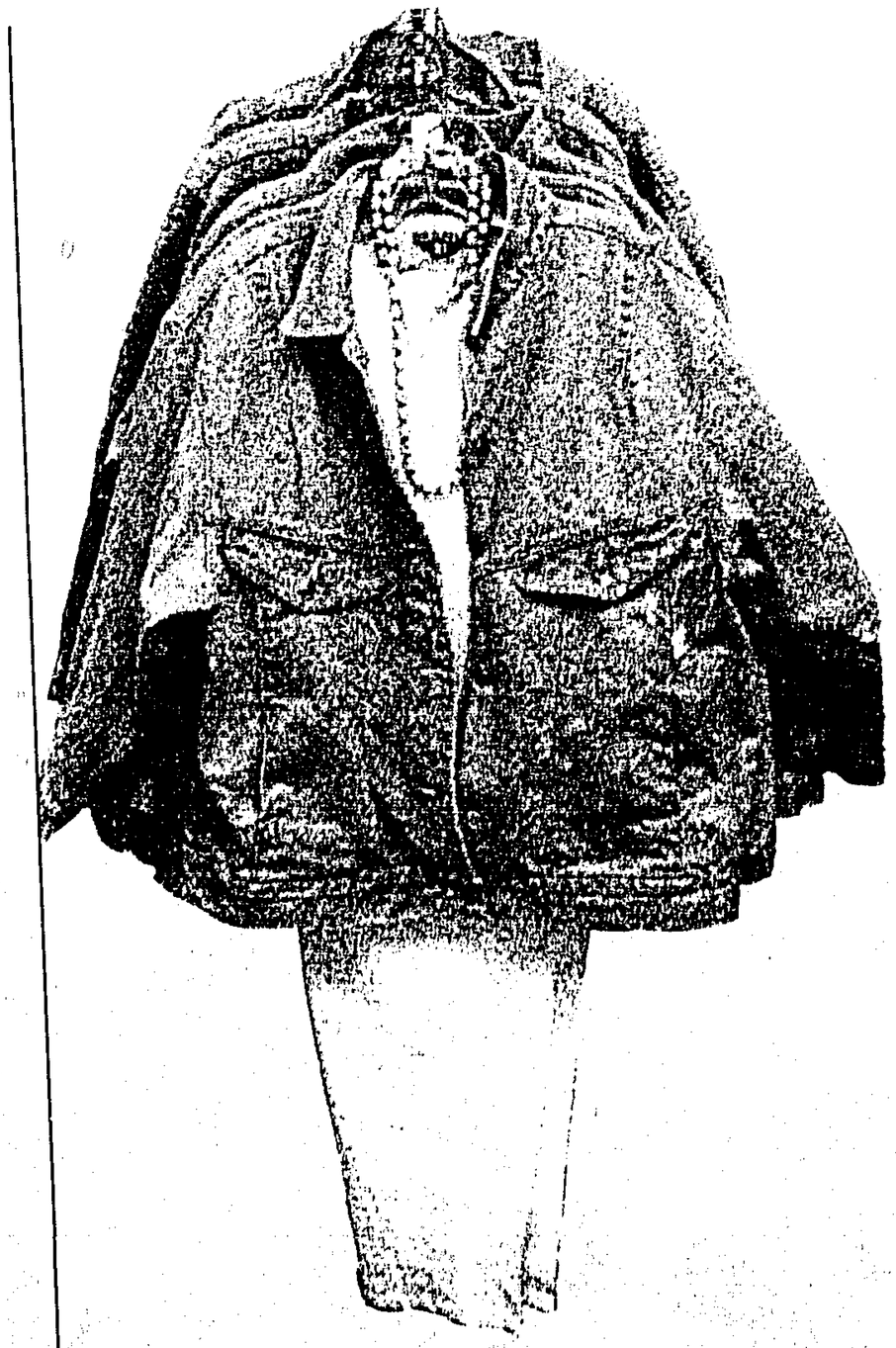
Fashion-forward sportswear, coats, dresses and accessories at popular and budget prices. Lerner is the nation's largest specialty retailer under a single trade name. By emphasizing current fashions, Lerner meets the needs of its customers and continues its remarkable turnaround.

750 stores in every major market
Average store size: 6,400 square feet

Lane Bryant

Stylish sportswear, ready-to-wear, intimate apparel and accessories for customers sizes 14 and up. Lane Bryant continues its explosive growth, the result of its ability to fulfill the desire of special-sized customers for attractive, exciting clothing.

579 stores in every major market
Average store size: 4,000 square feet





sizes Unlimited

Sportswear, dresses and accessories, sizes 14 and up, priced below similar goods in most department and specialty stores. Sizes Unlimited offers a wide assortment of first-quality merchandise, nationally known brand labels and private labels, at prices that appeal to the value-conscious customer.

247 stores in most major markets
Average store size: 3,500 square feet.



Nation's largest catalogue retailer of women's special-sized apparel and shoes, second largest catalogue retailer of all sizes of women's apparel and shoes. Brylane emphasizes service to its catalogue customers which is provided by the Indianapolis Fulfillment Center, recognized as the most sophisticated shipping and receiving operation in the industry.

Catalogues: Lane Bryant, Lerner Sport, Lerner Woman, Roaman's, Tall Collection.

BRYLANE

HENRI BENDEL

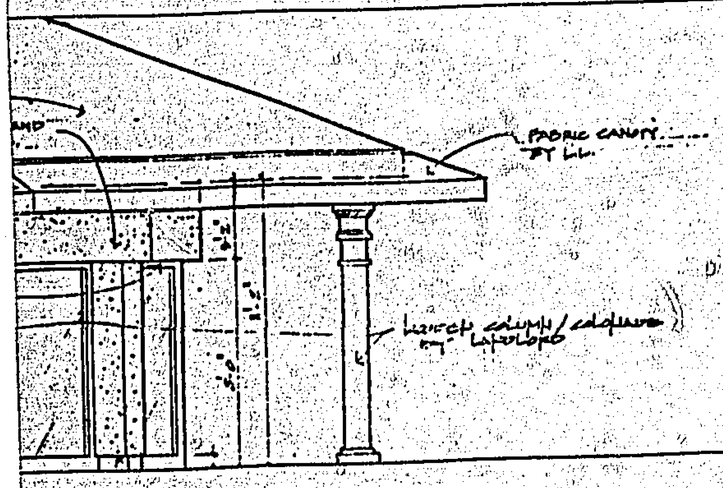
The best in international designer clothing and accessories, Henri Bendel occupies a unique position at the apex of the fashion world, providing its ultra-sophisticated customers with merchandise of incomparable style and quality. Henri Bendel plans to open stores in the top 40 markets in the nation.

Store: 57th Street, Manhattan
Size: 20,000 square feet



Mast Industries has provided The Limited, Inc. divisions with competitively priced, quality merchandise on schedule from 200 production facilities in 30 countries.

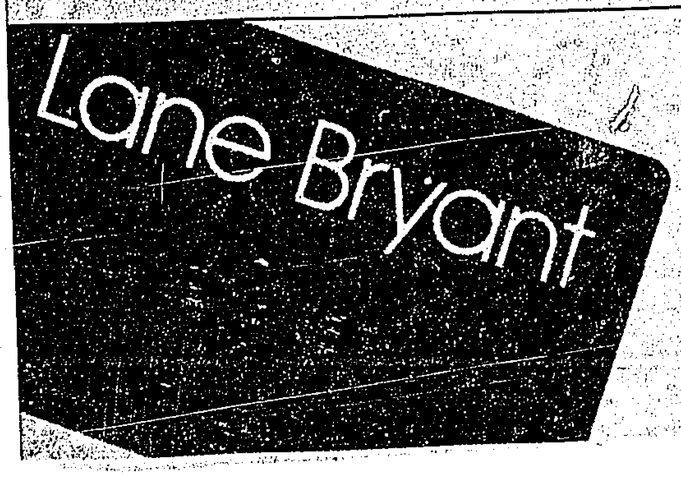




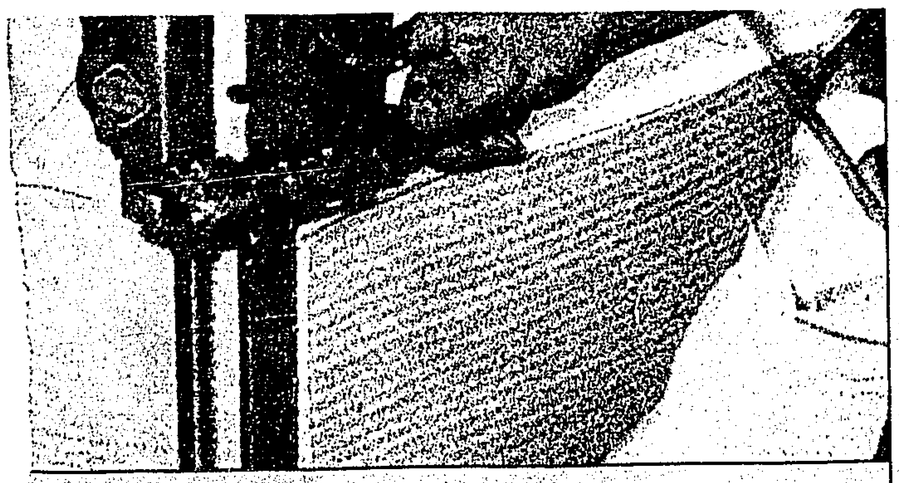
Limited Store Planning provides space design and merchandising techniques for all retail divisions.

Limited Real Estate recognized the importance of positioning in key markets and attention to detail in the 450 store leases signed in 1986.

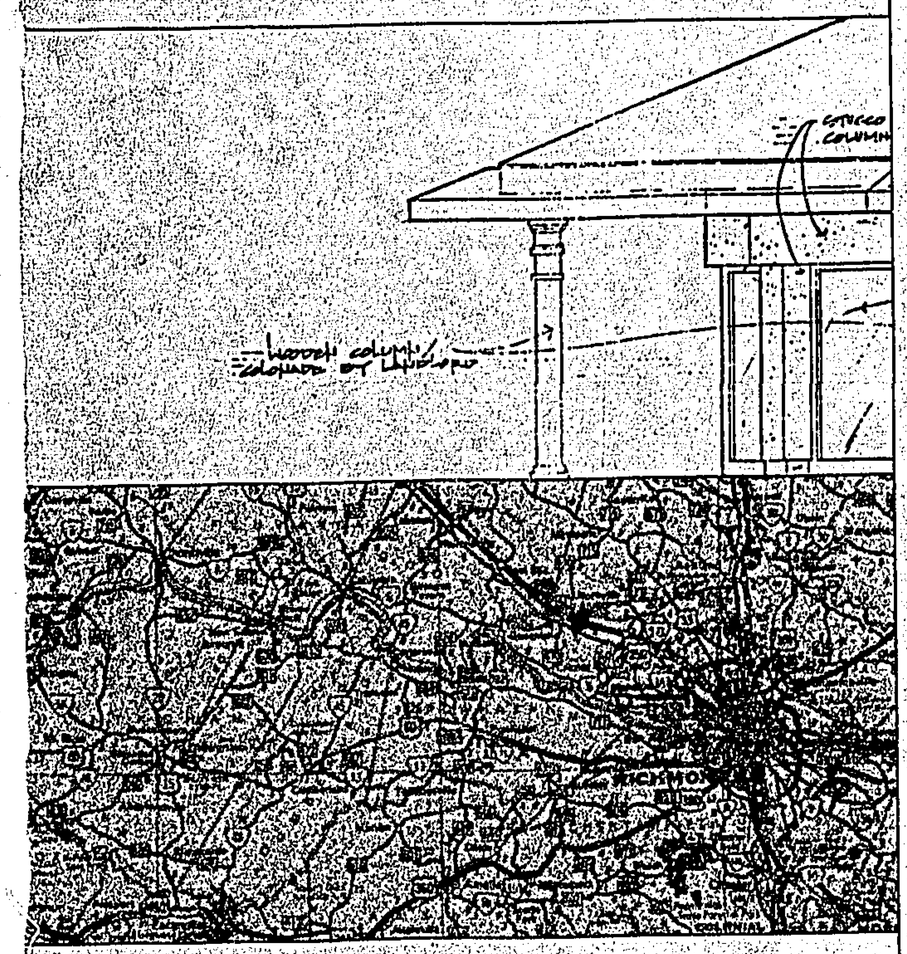




Limited Credit Services provides customer credit operations for the retail and mail-order sales of Lerner, Lane Bryant, Sizes Unlimited and Brylane.

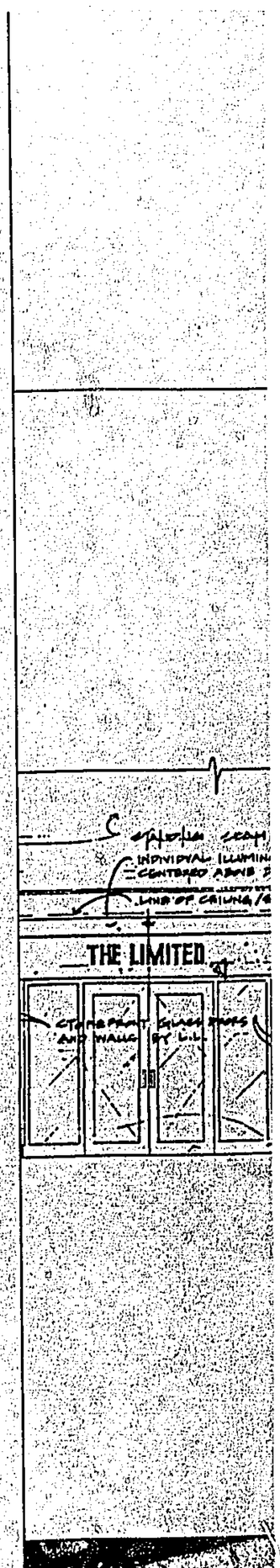


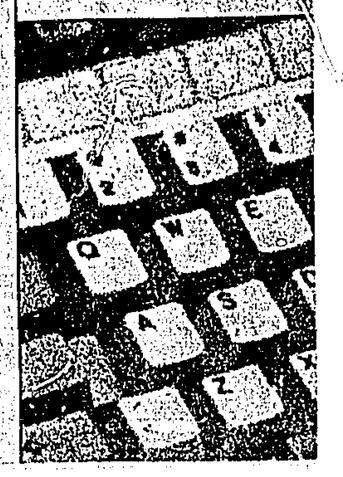
Distribution Services associates, using state-of-the-art logistic systems, process apparel through the 1.5 million-square-foot distribution center in 48 hours.



"Nothing is more critical to our success than execution. It's the key. The retail and mail order divisions are in the business of providing a service to the customer. The support divisions, in turn, are here to serve the needs of the retail and mail order divisions. It's all one effort, and I am determined that the support business must be totally involved in the effort and must continue to produce results we thought were beyond our capability by refusing to accept our best as *the* best."

Robert Morosky,
Vice Chairman





Financial Summary

[thousands except per share amounts]	1986	1985[1]	1984*	1983
Fiscal Year				
Summary of Operations				
Net Sales	$3,142,696	$2,387,110	$1,343,134	$1,085,890
Gross Income	961,827	718,843	404,321	327,616
Operating Income	438,229	276,212	173,102	135,377
Income before Income Taxes	394,780	239,317	157,495	134,939
Net Income	$ 227,780	$ 145,317	$ 92,495	$ 70,939
Per Share Results				
Net Income	$1.21	$.80	$.51	$.39
Dividends	.16	.107	.08	.04
Book Value	4.14	2.25	1.54	1.08
Weighted Average Number of Shares Outstanding	188,430	182,819	180,631	180,186
Other Financial Information				
Net Income as a Percentage of Sales	7.2%	6.1%	6.9%	6.5%
Working Capital	$ 134,327	$ 62,906	$ 67,260	$ 40,131
Ratio of Current Assets to Current Liabilities	1.4	1.2	1.4	1.3
Total Assets	$1,377,089	$1,211,510	$ 567,152	$ 377,396
Long-Term Debt	$ 70,420	$ 388,744	$ 60,139	$ 21,763
Shareholders' Equity	$ 781,542	$ 404,075	$ 275,403	$ 192,576
Return on Average Shareholders' Equity	38%	43%	40%	45%
Total Number of Stores Open at End of Year	2,682	2,353	1,412	937

*Consists of 53 weeks. [1]Includes the results of companies acquired subsequent to the date of acquisition.

1982	1981	1980	1979*	1978	1977	1976
$721,394	$364,900	$295,016	$252,693	$218,876	$175,373	$118,002
209,374	109,246	81,919	62,749	53,757	58,863	38,539
70,943	38,386	23,191	12,549	10,843	25,346	17,514
60,592	38,486	20,817	8,588	7,695	24,817	17,533
$ 33,592	$ 22,386	$ 13,142	$ 7,063	$ 5,920	$ 13,217	$ 8,833
$.19	$.14	$.08	$.05	$.04	$.09	$.06
.024	.013	.009	.007	.006	.004	.002
.70	.50	.37	.29	.25	.21	.13
175,506	166,521	163,068	160,176	159,108	156,864	155,064
4.7%	6.1%	4.5%	2.8%	2.7%	7.5%	7.5%
$ 22,887	$ 23,728	$ 18,756	$ 14,041	$ 17,329	$ 18,631	$ 11,370
1.2	1.7	1.7	1.7	1.9	2.2	2.0
$320,392	$142,658	$116,551	$102,921	$ 98,176	$ 71,405	$ 39,123
$ 74,411	$ 16,571	$ 23,765	$ 30,909	$ 35,940	$ 21,305	$ 7,107
$122,578	$ 83,150	$ 60,093	$ 46,726	$ 39,597	$ 32,769	$ 19,561
33%	31%	25%	16%	16%	51%	58%
825	430	352	309	258	188	126

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations Financial Summary

Certain financial data expressed in percentage relationship to net sales and in comparison to the prior fiscal year are:

	Percentage of Net Sales			Percentage Increase from Prior Year	
	1986	1985	1984	1985-86	1984-85
Net Sales	100.0%	100.0%	100.0%	32%	78%
Gross Income	30.6%	30.1%	30.1%	34%	78%
General, Administrative and Store Operating Expenses	16.7%	18.5%	17.2%	18%	91%
Interest Expense	1.5%	1.7%	1.2%	11%	147%
Net Income	7.2%	6.1%	6.9%	57%	57%

Net Sales

The increase in 1986 net sales resulted primarily from the addition of 431 stores and increased sales in existing stores. The increase in 1985 net sales largely resulted from the acquisition of Lerner (50% of the increase), the opening of an additional 267 stores and increased sales in existing stores.

Gross Income

Gross income as a percentage of net sales increased in 1986 due primarily to reductions in occupancy and buying costs as a percentage of net sales. Gross income as a percentage of net sales in 1985 and 1984 was relatively constant. However, in those years, the Company experienced lower markdowns as a percentage of net sales which were offset by increases in occupancy and buying costs.

General, Administrative and Store Operating Expenses

These operating expenses improved in 1986 and 1985 as a percentage of net sales as a result of additional economies of scale and management's continued emphasis on expense control and reduction. However, in 1985 this improvement was offset as a result of the inclusion of Lerner's results in the Consolidated Statements of Income since the acquisition date.

Interest Expense

Interest expense increased marginally in 1986 due to the net effect of an increase in the Company's credit card receivables which were financed through finance subsidiaries' borrowings (see Note 9) and the mid-year conversion of both convertible debt issues. Interest expense increased in 1985 primarily because of bank debt incurred for the Lerner acquisition; convertible debt issued to finance the expansion of the Company's distribution facilities and to repay indebtedness incurred by Lerner prior to its acquisition; and an increase in the Company's credit card receivables which were financed through finance subsidiaries' borrowings.

Income Taxes

The effective tax rates were 42.3%, 39.3% and 41.3% for 1986, 1985 and 1984, respectively. A reconciliation of these rates with the Federal statutory income tax rate is presented in Note 6.

The Tax Reform Act of 1986 and the possible adoption by the Financial Accounting Standards Board (FASB) of new tax accounting rules will have a positive but not material impact on the Company's financial position, liquidity and results of operations. The Tax Act is of foremost importance due to a substantial reduction in the Federal statutory tax rate to approximately 40% in 1987 and 34% in 1988. This favorable impact is reduced by the elimination of the investment tax credit commencing in 1986. Additionally, income resulting from installment method recognition of sales from the Company's credit card operations previously deferred for tax purposes will be included in taxable income over four years commencing in 1987 with the amount to be included in any one year not being material. Further, certain costs related to inventory, principally buying and distribution, will be capitalized for tax purposes but the amounts will not be significant.

Impacts of Inflation

The Company's results of operations and financial condition are stated in terms of historical cost. While it is difficult to accurately measure the impacts of inflation due to the imprecise nature of the estimates required, the Company's calculations indicate that the effects of inflation on the Company have been minor.

Financial Condition
Liquidity and Capital Resources

Cash provided from operations and the Company's capital structure plus funds available under committed long-term bank agreements provide the financial resources and stability to support both current operations and future growth. The Company's capital structure is as follows (000):

	1986	1985	1984
Working Capital	$ 134,327	$ 62,906	$ 67,260
Capitalization—			
Long-term debt	$ 70,420	$388,744	$ 60,139
Deferred taxes	169,414	44,506	42,394
Shareholders' equity	781,542	404,075	275,403
Total Capitalization	$1,021,376	$837,325	$377,936
Unused and available long-term bank lines	$1,535,000	$503,000	$654,000

The Company considers the following to be several measures of liquidity and capital resources:

	1986	1985	1984
Cash provided from operations (000)	$360,032	$249,250	$120,305
Liquidity and Asset Utilization Ratios:			
Cash flow to liabilities (cash flow from operations divided by total current and long-term liabilities)	84%	33%	48%
Interest coverage (income before interest expense and taxes divided by interest expense)	10	7	10
Debt ratio (long-term debt divided by total capitalization)	7%	46%	16%
Cash flow to capital investment (cash flow from operations divided by additions to property and equipment)	183%	138%	102%

As the tables indicate, the Company's primary source of liquidity continues to be cash provided from operations, which increased 44% in 1986 due primarily to increased earnings and an increase in non-cash expenses (principally depreciation and amortization). The Company has available under its revolving credit agreements long-term bank lines totaling $1.6 billion, of which over $1.5 billion was unused at January 31, 1987. These agreements provide for additional financial stability. Management believes that the Company's liquidity and capital resources are sufficient to sustain current operations and provide for future growth.

Capital Requirements

Capital additions in 1986, 1985 and 1984 amounted to $196.5 million, $180.3 million and $117.7 million, respectively. These expenditures were for new store construction and renovation plus equipment additions and, beginning in 1986, construction of a new distribution and office facility in Columbus, Ohio. Capital additions of approximately $245 million are planned for 1987, including the addition of 500 new stores, the remodeling of existing stores, and the completion of the distribution and office facility. The Company anticipates that these capital additions will not require external financing.

Sales are typically for cash, through national bank credit cards or the Company's credit cards. Management believes that sales growth can be supported without the need for significant increases in working capital because the Company's credit card receivables are sold to wholly-owned, unconsolidated finance subsidiaries and inventory turnover is rapid.

Consolidated Statements of Income

[thousands except per share amounts]	1986	1985	1984
Net Sales	$3,142,696	$2,387,110	$1,343,134
Costs of Goods Sold, Occupancy and Buying Costs	2,180,869	1,668,267	938,813
Gross Income	961,827	718,843	404,321
General, Administrative and Store Operating Expenses	523,598	442,631	231,219
Operating Income	438,229	276,212	173,102
Interest Expense	(45,900)	(41,230)	(16,662)
Other Income, net	2,451	4,335	1,055
Income Before Income Taxes	394,780	239,317	157,495
Provision for Income Taxes	167,000	94,000	65,000
Net Income	$ 227,780	$ 145,317	$ 92,495
Net Income Per Share	$1.21	$.80	$.51

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

[thousands]	January 31, 1987	February 1, 1986
Assets		
Current Assets		
Cash and Equivalents	$ 3,256	$ 12,948
Accounts Receivable	72,878	62,077
Inventories	361,489	320,305
Prepayments and Other	31,608	20,994
Total Current Assets	469,231	416,324
Property and Equipment	734,727	648,314
Investment in Finance Subsidiaries	105,503	74,795
Other Assets	67,628	72,077
Total Assets	$1,377,089	$1,211,510
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable	$ 169,112	$ 184,368
Accrued Expenses	131,829	103,381
Income Taxes	33,963	65,669
Total Current Liabilities	334,904	353,418
Long-Term Debt	70,420	388,744
Deferred Income Taxes	169,414	44,506
Other Long-Term Liabilities	20,809	20,767
Shareholders' Equity		
Common Stock	94,398	59,917
Paid-In Capital	199,424	24,695
Retained Earnings	487,720	319,463
Total Shareholders' Equity	781,542	404,075
Total Liabilities and Shareholders' Equity	$1,377,089	$1,211,510

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

[thousands]

	Common Stock			
	Shares Outstanding	Par Value	Paid-in Capital	Retained Earnings
Balance, January 28, 1984	**59,180**	**$29,590**	**$ 18,088**	**$144,898**
Net income	—	—	—	92,495
Cash dividends	—	—	—	(14,263)
Exercise of stock options and other	434	217	4,378	—
Balance, February 2, 1985	**59,614**	**29,807**	**22,466**	**223,130**
Net income	—	—	—	145,317
Cash dividends	—	—	—	(19,118)
Two-for-one stock split	59,732	29,866	—	(29,866)
Exercise of stock options and other	488	244	2,229	—
Balance, February 1, 1986	**119,834**	**59,917**	**24,695**	**319,463**
Net income	—	—	—	227,780
Cash dividends	—	—	—	(29,507)
Three-for-two stock split	60,032	30,016	—	(30,016)
Conversion of debentures	8,312	4,156	170,844	—
Exercise of stock options and other	618	309	3,885	—
Balance, January 31, 1987	**188,796**	**$94,398**	**$199,424**	**$487,720**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

[thousands]	1986	1985	1984
Cash was provided from:			
Operations			
Net income	$227,780	$145,317	$ 92,495
Add expenses not requiring working capital			
Depreciation and amortization	97,393	80,128	34,526
Deferred income taxes and other	36,920	(3,030)	7,587
Working capital from operations	362,093	222,415	134,608
Cash flow additions (requirements) resulting from			
Inventories	(41,184)	(51,342)	(67,157)
Payables	(15,256)	62,567	36,240
Income taxes	47,346	11,082	16,326
Other current assets and liabilities	7,033	4,528	288
Cash provided from operations	360,032	249,250	120,305
Other sources of cash			
Increases in long-term debt	—	521,590	38,290
Conversion of debt to stock—$175,000 in 1986	—	—	—
Other, including disposal of assets	22,859	9,317	1,706
Total cash provided	382,891	780,157	160,301
Cash was used for:			
Investment in property and equipment	196,487	180,269	117,684
Reduction of long-term debt	143,324	196,398	—
Cash dividends	29,507	19,118	14,263
Investment in finance subsidiaries	23,265	47,456	8,000
Net cash to acquire subsidiaries and retire debt	—	331,462	14,142
Total cash used	392,583	774,703	154,089
Increase (decrease) in Cash and Equivalents	(9,692)	5,454	6,212
Cash and Equivalents, beginning of year	12,948	7,494	1,282
Cash and Equivalents, end of year	$ 3,256	$ 12,948	$ 7,494

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

[thousands except share amounts]

[1] Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries except the Company's wholly-owned finance subsidiaries, which are accounted for as equity investments [Note 9]. Significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

Fiscal years are designated in the financial statements and notes by the calendar year in which the fiscal year commences. Accordingly, results for fiscal years 1986, 1985 and 1984 represent the 52 weeks ended January 31, 1987 and February 1, 1986 and the 53 weeks ended February 2, 1985, respectively.

Inventories

Inventories are principally valued at the lower of average cost or market.

Catalogue Costs

Catalogue preparation and printing costs are principally charged to expense in the year incurred.

Property and Depreciation

Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 20-30 years for buildings and improvements and 3-10 years for other property and equipment. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts in the year of disposal, with the resulting gain or loss included in net income. Maintenance, repairs and minor renewals are charged to expense as incurred. Renewals and betterments which extend service lives are capitalized.

Provision for Income Taxes

The provision for income taxes is based on income reported for financial statement purposes, and includes a deferred provision for the tax effect of timing differences between the financial and tax reporting of revenue and expense items. Deferred Federal income taxes, less applicable foreign tax credits, have not been provided for the undistributed earnings of foreign subsidiaries ($103.9 million at January 31, 1987) because the Company intends to reinvest such undistributed earnings in those operations. Investment tax credits are accounted for as a reduction of the provision for Federal income taxes in the year the related credit is utilized.

Shareholders' Equity

Five hundred million shares of $.50 par value common stock are authorized of which 188.8 million are issued and outstanding. Ten million shares of $1.00 par value preferred stock are authorized, none of which have been issued.

Net Income Per Share

Net income per share is computed based upon the weighted average number of outstanding common shares and includes, where appropriate, the effect of stock options and subordinated convertible debt outstanding during the periods reported, as restated for stock splits in 1986 and 1985.

[2] Leased Facilities and Commitments

Annual store rent is a fixed minimum amount, plus contingent rent based on a percentage of sales exceeding a stipulated amount. Store lease provisions generally require additional payments covering taxes, maintenance and certain other miscellaneous expenses. Rent expense was as follows:

	1986	1985	1984
Store rent			
Fixed minimum	$126,616	$ 98,996	$47,550
Contingent	22,141	14,368	6,695
Total store rent	148,757	113,364	54,245
Equipment & other	22,297	15,887	11,249
Total rent expense	$171,054	$129,251	$65,494

At January 31, 1987, the Company was committed under store leases with initial terms ranging from ten to twenty years. Accrued rents at January 31, 1987 and February 1, 1986 amounted to $25,689 and $13,807, respectively.

Minimum rent commitments by fiscal year for noncancellable leases are as follows:

1987	$168,842
1988	175,701
1989	167,066
1990	163,728
1991	157,498
Thereafter	703,259

[3] Long-Term Debt

Long-term debt consisted of:

	1986	1985
Revolving credit agreements	$65,000	$197,000
Other, net of current maturities	5,420	16,744
Subordinated convertible debt	—	175,000
	$70,420	$388,744

Under its amended Revolving Credit and Term Loan Agreements, the Company may borrow up to $1.6 billion through April 30, 1989, at which time the then outstanding balance will be repaid in eight semi-annual installments commencing October 31, 1989. At the Company's option, interest is payable at either an agreed upon amount over the lenders' cost of funds or the prime rate. The commitment fee on the unused line is ⅜ of 1% through March 31, 1987, and ¼ of 1% thereafter. The terms of the Agreements place certain restrictions on the Company including retained earnings available for dividends and the purchase, redemption or retirement of the Company's stock. As of January 31, 1987, $107 million of retained earnings was free from such restriction.

$125 million of 7½% Subordinated Convertible Debentures and $50 million of 6¾% Subordinated Convertible Bonds were converted into shares of the Company's common stock in 1986 at $20⅞ and $21⅜ per share, respectively.

Aggregate maturities of long-term debt during the next five years are:

1987 (current maturities, included in accounts payable)	$ 665
1988	1,574
1989	8,909
1990	16,744
1991	16,443

Notes to Consolidated Financial Statements

[thousands except share amounts]

[4] Accounts Receivable

Accounts receivable consisted of:

	1986	1985
Accounts receivable, principally deferred payment accounts	$559,215	$448,317
Accounts sold to wholly-owned finance subsidiaries [Note 9]	(465,930)	(369,066)
Allowance for uncollectible accounts	(20,407)	(17,174)
	$ 72,878	$ 62,077

Finance charge revenue on deferred payment accounts amounted to $81.0 million, $38.6 million and $20.2 million in 1986, 1985 and 1984, respectively, and the provision for uncollectible accounts amounted to $49.9 million, $20.9 million and $8.5 million in 1986, 1985 and 1984, respectively. These amounts are classified as components of the cost of administering the deferred payment program and are included in general, administrative and store operating expenses.

[5] Property and Equipment

Property and equipment consisted of:

	1986	1985
Land, buildings and improvements	$ 105,198	$ 84,956
Furniture, fixtures and equipment	499,346	377,002
Leaseholds and improvements	375,596	340,881
Construction in progress	20,477	28,919
	1,000,617	831,758
Less—Accumulated depreciation and amortization	265,890	183,444
Property and Equipment, net	$ 734,727	$648,314

[6] Income Taxes

The provision for income taxes consisted of:

	1986	1985	1984
Currently payable:			
Federal	$ 65,700	$41,900	$35,600
State	1,700	7,000	4,000
Foreign	8,900	4,200	2,700
	76,300	53,100	42,300
Deferred:			
Federal	74,300	35,100	19,700
State	16,400	5,800	3,000
	90,700	40,900	22,700
Total Provision	$167,000	$94,000	$65,000

The foreign component of pre-tax income in 1986, 1985 and 1984 is $55,900, $28,200 and $14,900, respectively.

Reconciliation of the effective income tax rate with the statutory Federal income tax rate is as follows:

	1986	1985	1984
Federal income tax rate	46.0%	46.0%	46.0%
State income tax, net of Federal income tax effect	2.5	2.9	2.4
Investment tax credits	(1.0)	(2.7)	(2.9)
Foreign operations	(4.2)	(4.0)	(2.7)
Other, net	(1.0)	(2.9)	(1.5)
	42.3%	39.3%	41.3%

The components of the deferred tax provision are as follows:

	1986	1985	1984
Excess of tax depreciation over book depreciation	$28,400	$ 2,200	$ 6,700
Deferred profit on receivables	53,300	43,700	10,000
Other,	9,000	(5,000)	6,000
	$90,700	$40,900	$22,700

The Tax Reform Act of 1986 eliminated the use of the installment method for recognizing income on sales from the Company's credit card operations and requires that income on deferred sales at January 31, 1987 be included in taxable income over a four-year period beginning in 1987. Accordingly, $79,000 of deferred income taxes related to installment sales are now classified with long-term deferred income taxes. Income taxes at February 1, 1986 include $56.4 million of deferred income taxes principally related to installment method recognition of sales from the Company's credit card operations.

[7] Stock Options

Under the Company's stock option plans at January 31, 1987, 6.9 million shares were available for grant to employees. An additional 3 million shares were reserved for outstanding options, of which 1.7 million were exercisable. Options have been granted at fair market value. Option activity for the year ended January 31, 1987, adjusted to reflect the 1986 stock split, is as follows:

	Number of Shares	Weighted Average Option Price Per Share
Outstanding Options, February 1, 1986	3,402,000	$ 6.06
Activity during 1986		
Granted	491,000	$27.31
Exercised	(709,000)	$ 4.46
Cancelled	(183,000)	$14.24
Outstanding Options, January 31, 1987	3,001,000	$ 9.41

At February 1, 1986, 7.2 million shares were available for grant to employees.

[8] Acquisitions

The consolidated financial statements include the operations of Lerner subsequent to its acquisition in April 1985. The following table presents selected unaudited pro forma financial information for 1985 and 1984 as if the acquisition had taken place at the beginning of those years, adjusted to reflect the 1986 stock split:

	1985		1984	
	As Reported	Pro Forma	As Reported	Pro Forma
Net Sales	$2,387,110	$2,488,380	$1,343,134	$2,033,061
Operating Income	276,212	277,658	173,102	196,006
Interest Expense	41,230	46,946	16,662	58,604
Net Income	$ 145,317	$ 143,456	$ 92,495	$ 85,721
Net Income Per Share	$.80	$.79	$.51	$.47

This required pro forma information includes adjustments to reflect additional interest expense, depreciation and amortization, but does not reflect the impact of operating changes already made or planned to be made. In management's opinion, these results are not indicative of the results that would have occurred during 1985 and 1984 had the acquisition taken place at the beginning of those years.

Notes to Consolidated Financial Statements

[thousands except share amounts]

[9] Finance Subsidiaries

Limited Credit Corp. and Limited Credit Funding, Inc., wholly-owned unconsolidated finance subsidiaries purchase, without recourse, receivables generated by the Company's credit card operations. These purchases are financed through borrowings under Revolving Credit and Term Loan Agreements totaling $100 million and a $300 million receivable finance facility. The receivables are generally purchased at discounts sufficient to cover fixed charges (principally interest expense) at least one and one-half times. These discounts are eliminated in the Consolidated Statements of Income by reducing interest expense in an amount equal to the pre-tax earnings of the finance subsidiaries. Combined net earnings of the finance subsidiaries totaled $7.5 million, $3.6 million and $1.9 million in 1986, 1985 and 1984, respectively. Combined condensed balance sheets of the finance subsidiaries reflecting the elimination of all intercompany items are presented below.

	January 31, 1987	February 1, 1986
Assets		
Customer receivables purchased from wholly-owned subsidiaries of The Limited, Inc.	$465,900	$369,100
Liabilities and Investment		
Borrowings under credit agreements	$347,000	$282,000
Subordinated debt to affiliate	51,700	28,500
Contract withholding account and other	13,400	12,300
	412,100	322,800
Investment of The Limited, Inc. (including accumulated earnings of $14,800 and $7,300)	53,800	46,300
	$465,900	$369,100

The provisions of the borrowings place certain restrictions and limitations on the finance subsidiaries, including retained earnings available for dividends and for the purchase, redemption or retirement of the finance subsidiaries' stock. As of January 31, 1987, $10.6 million of the finance subsidiaries' retained earnings was free from such limitation. Borrowings under the receivable finance facility, amounting to $267 million at January 31, 1987 are secured by a lien on receivables equal to 134% of the amount borrowed.

The subordinated debt to affiliate is payable under $75 million of Revolving Subordinated Demand Promissory Notes. The notes call for quarterly payments of interest at 7% per annum with principal repayment due one year and one day after demand.

[10] Quarterly Financial Data (Unaudited)

Summarized quarterly financial results, adjusted to reflect the 1986 and 1985 stock splits, are as follows:

Fiscal Quarter	First	Second	Third	Fourth
1986				
Net Sales	$661,623	$695,271	$803,699	$982,103
Gross Income	189,150	206,259	260,727	305,691
Net Income	31,402	40,220	68,621	87,537
Net Income Per Share	.17	.22	.36	.46
1985				
Net Sales	$461,115	$525,444	$613,331	$787,220
Gross Income	134,737	155,129	190,129	238,848
Net Income	21,346	25,744	42,120	56,107
Net Income Per Share	.12	.14	.23	.31

Report of Independent Public Accountants

To The Limited, Inc.:

We have examined the consolidated balance sheets of THE LIMITED, INC. (a Delaware corporation) and subsidiaries as of January 31, 1987 and February 1, 1986, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended January 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Limited, Inc. and subsidiaries as of January 31, 1987 and February 1, 1986, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Chicago, Illinois
February 17, 1987

Market Price and Dividend Information

	Market Price*		Cash Dividend Per Share*
	High	Low	
Fiscal Year 1986			
1st Quarter	$30½	$23	$ .04
2nd Quarter	34¼	26⅜	.04
3rd Quarter	31⅞	24¾	.04
4th Quarter	43	29½	.04
Fiscal Year 1985			
1st Quarter	$13⅞	$10½	$.027
2nd Quarter	18⅜	13¾	.027
3rd Quarter	18¼	15⅛	.027
4th Quarter	23¼	18¼	.027

*Adjusted to reflect the June 1986 three-for-two stock split and the June 1985 two-for-one stock split.

The Company's common stock is traded on the New York Stock Exchange ("LTD") and the London Stock Exchange. On January 31, 1987, there were 15,000 shareholders of record.



Directors

Leslie H. Wexner (a)
Chairman of the Board

Robert H. Morosky (a)
Vice Chairman

Bella Wexner
Secretary

David T. Kollat
Executive Vice President
The Limited, Inc.

Martin Trust
President, Mast Industries, Inc.

W. Arthur Cullman
Professor Emeritus of Marketing
The Ohio State University

John W. Kessler (a), (b)
Real Estate Consultant
and Developer

Claudine Malone (b)
Consultant

John K. Pfahl (b)
Management Consultant

Donald B. Shackelford (b)
Chairman of the Board
of State Savings Bank

Allan R. Tessler
Senior Partner
Shea & Gould, Attorneys at Law

Raymond Zimmerman
Chairman of the Board
and President
Service Merchandise Co., Inc.

(a) Member of Executive Committee
(b) Member of Audit Committee

Executive Officers

Leslie H. Wexner
Chairman of the Board

Robert H. Morosky
Vice Chairman

Bella Wexner
Secretary

Thomas G. Hopkins
Executive Vice President
Organizational Development

David T. Kollat
Executive Vice President
Marketing

Kenneth B. Gilman
Senior Vice President
Corporate Controller

Alfred S. Dietzel
Vice President
Financial and Public Relations

Timothy B. Lyons
Vice President
Taxes

Michael W. Solly
Vice President
Treasurer



Leslie H. Wexner
Chairman



Verna Gibson
President
Limited Stores



Michael A. Weiss
President
Limited Express



Robert C. Grayson
President
Lerner



Howard Gross
President
Victoria's Secret



Ira Quint
President
Lane Bryant



Raphael Benaroya
President
Sizes Unlimited



Peter J. Canzone
President
Brylane



Mark Shulman
President
Henri Bendel



Robert H. Morosky
Vice Chairman



Martin Trust
President
Mast Industries



C. Lee Johnson
President
Limited Distribution
Services



Charles W. Hinson
President
Limited Store
Planning



Jerald Dick
President
Limited Real Estate



Ralph Spurgin
President
Limited Credit Services

We are an unconventional company,

Corporate Offices
Two Limited Parkway
P.O. Box 16000
Columbus, OH 43216

Annual Meeting
The Annual Meeting of Shareholders is scheduled for 9 a.m. Monday, May 18, 1987, at the Corporate Offices.

Date Founded 1963

Number of Associates 43,200

Number of Shareholders of Record 15,000

Overseas Offices
London, England
Kowloon, Hong Kong
Milan, Italy
Osaka, Japan
Seoul, Korea
Taipei, Taiwan

10-K Report
A Form 10-K is available without charge upon written request to
Alfred S. Dietzel, Vice President
The Limited, Inc.
Two Limited Parkway
P.O. Box 16000
Columbus, OH 43216

Stock Transfer Agent, Registrar and Dividend Agent
Manufacturers Hanover Trust Company
Shareholders Relations Department
450 West 33rd Street, 8th Floor
New York, New York 10001

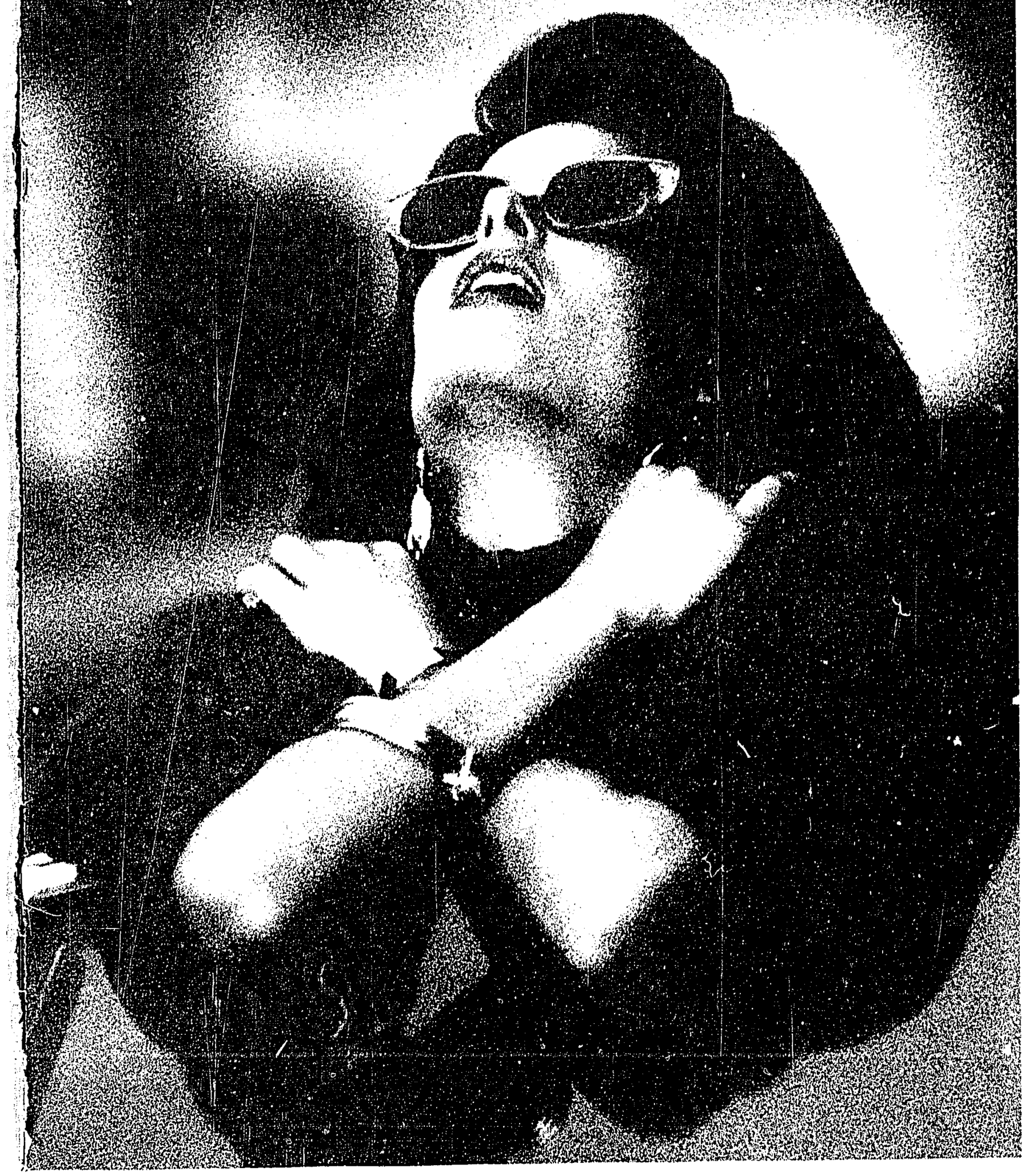
Stock Exchange Listings
New York Stock Exchange
(Trading Symbol "LTD")
London Stock Exchange

Legal Counsel
Schwartz, Kelm, Warren & Rubenstein
Columbus

Independent Public Accountants
Arthur Andersen & Co.
Chicago

never compromising quality for quantity in our pursuit of

excellence.



In Forbes' 1986 Annual Report

on American Industry,

The Limited ranked first

among the specialty apparel retailers

surveyed for appreciation,

return on equity, earnings per share

and sales growth.

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